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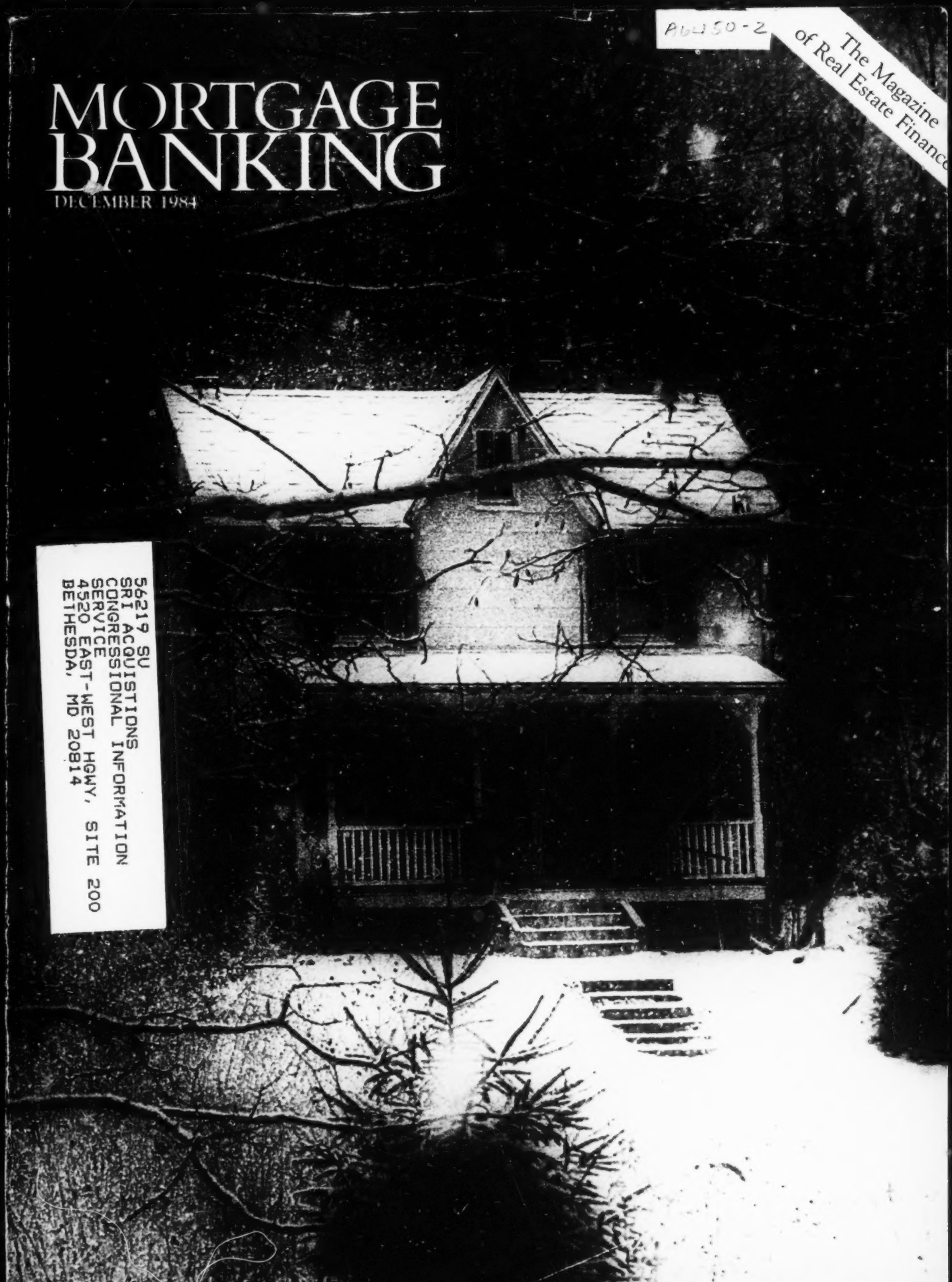

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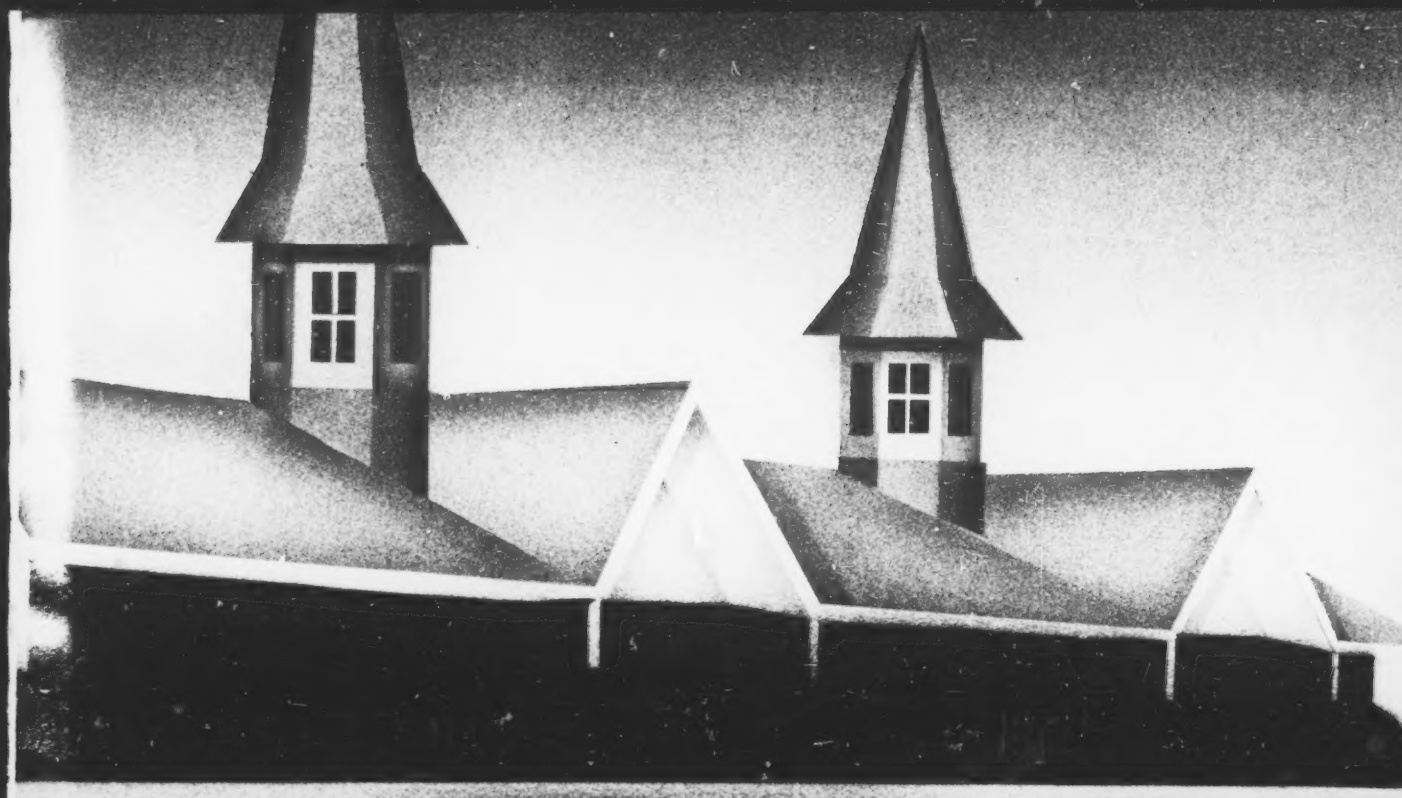

MORTGAGE-BACKED SECURITIES TRACK RECORD

Michael Stamper
Patricia Dodson
Rick Watson

Securitization—the word is not even in the dictionary, yet the concept of securitizing mortgages has captured the imagination of both housing proponents and major Wall Street investors. continued

ILLUSTRATION BY [illegible]

Securitization refers to the process that links the mortgage markets to the capital markets by converting mortgages to securities. Securitization provides a mechanism to feed the capital market's appetite for long-term, fixed-rate, low-risk but high-yielding investments. By converting mortgages to Government National Mortgage Association securities, mortgage bankers were the first in the housing finance industry to take advantage of the securitization process more than a decade ago.

Mortgage securities' volume has exploded in the last five years, but the growth in mortgage security trading has been even more striking. There are several possible explanations for the increase in trading activity of mortgage pass-through securities. The extreme uncertainty about the course and level of interest rates that has pervaded the financial markets since 1979 may have contributed to the surge in trading activity. Sales of pass-throughs resulting from thrift portfolio restructuring may be an additional factor. It is also possible that the rising popularity of dollar repurchase agreements (dollar rolls) may be increasing the reported trades in the mortgage securities market.

Explosion in volume and trading activity

The volume of outstanding issues of Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Government National Mortgage Association (Ginnie Mae) mortgage pass-through securities has more than doubled in the last two and one-half years. The amount of pass-throughs outstanding jumped from $119 billion at the end of 1981 to $254 billion at midyear 1984. (See chart 1.) These figures attest to the phenomenal growth in securitization of residential mortgages.

Ginnie Mae has led the growth in the volume of outstanding pass-throughs, followed closely by Freddie Mac's Mortgage Participation Certificates (PCs) and Fannie Mae's Conventional Mortgage-Backed Securities (CMBSs). Between 1981 and June 1984, Ginnie Mae pass-throughs outstanding jumped by $65.1 billion. Freddie Mac contributed another $41.4 billion to the market, with Fannie Mae adding $28.6 billion.

While pass-through volume has, indeed, grown at a remarkable rate, the surge in trading activity has been even more striking. The estimated annual trading volume has jumped from $131 billion in 1981 to over $500 billion in 1983 and 1984. The fourfold increase in trading activity has substantially exceeded the doubling of pass-through volume outstanding, implying that the frequency of mortgage pass-through trading has increased.

The turnover ratio provides a measure of trading frequency. The ratio is computed by dividing annual trading volume by the stock of outstanding securities. The ratio provides an estimate of the average number of times an outstanding security exchanged hands during a particular period.

In 1981, pass-throughs exchanged hands an average of 1.1 times, with Ginnie Maes being exchanged more frequently than other pass-throughs. (See Chart 2.) In 1982 and 1983, trading activity rose sharply, especially trading of Ginnie Maes. In the first half of 1984, trading of Freddie Mac PCs and Fannie

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Richard J. Watson is a Product Manager in the Marketing Analysis Department at Freddie Mac, and is responsible for single-family fixed-rate Guarantor and cash mortgage purchase programs. Prior to his current position, he was involved with various short-term borrowing, investment, and hedging activities at Freddie Mac.

Mae CMBSs has continued to accelerate, while the Ginnie Mae turnover ratio has actually declined. The decline in the rate of Ginnie Mae trading has been sharpest in the second quarter of 1984.

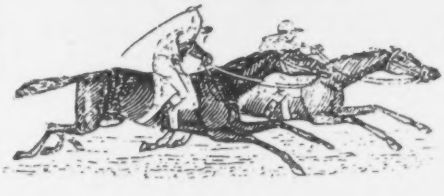
Rate volatility

The increased uncertainty over the future course of interest rates provides one plausible explanation for the growth in mortgage security trading. After the Federal Reserve modified its method of implementing monetary policy in October 1979, the volatility of interest rates jumped. An increase in volatility can lead to widely different expectations about the future pattern of interest rates among investors. Different rate expectations lead to different judgments about the value of securities. When investors have widely different perceptions about the value of a security, trading is likely to result as investors seek to take advantage of perceived opportunities for arbitrage.

Volatility in interest rates, however, should lead to an increase in trading of all types of securities, not just mortgage securities. The volatility explanation is thus given some credence by the increase in the turnover ratio of Treasury securities. The turnover ratio was 3.9 in 1978 and 4.7 in 1979. In 1980, the ratio jumped to 6.2. The turnover ratio has continued to increase in 1981 through 1983. (See Chart 3.)

Trading of mortgage securities may be particularly responsive to rate volatility, however, because of the prepayment option included in mortgages and mortgage securities. When interest rates rise, prepayments on fixed-rate loans tend to slow, altering the maturity and yield of pass-through securities. Rate decreases will tend to result in an acceleration of prepayments and a shortening of the pass-through's maturity. Because the exact relationship between interest rates and mortgage prepayments is not completely predictable, the existence of the prepayment option may result in a wider dispersion of forecasted values for pass-through securities among investors. This may result in a more rapid turnover of mortgage securities when interest rates become more volatile.

"Volatility in interest rates, however, should lead to an increase in trading of all types of securities, not just mortgage securities."



Thrift portfolio restructuring

Thrift portfolio restructuring provides another plausible explanation for the growth in mortgage security trading. Restructuring on the asset side has been facilitated by the new investment powers given to thrifts under deregulation. Thrifts concerned that interest rates have shifted to a permanently higher level resulting in insufficient or negative spreads and thrifts plagued by declining net worth have attempted to reduce their exposure to interest-rate risk by selling the fixed-rate mortgages and securities in their portfolios and buying or originating adjustable-rate loans or other shorter term assets. The sale of fixed-rate pass-throughs will increase the reported trades of mortgage securities.

Federally chartered and insured mutual savings and loans, federally chartered savings banks with FSLIC insurance, federally chartered mutual institutions with FDIC insurance, as well as some state chartered thrifts can sometimes sell PCs and mortgages with a deferred recognition of the gains and losses if the institution has elected to report under Regulatory Accounting Principles (RAP). The gains and losses are amortized over the weighted average remaining maturity of the disposed assets using either straight-line or level-yield amortization.

In March 1984, approximately 35 percent of FSLIC-insured thrifts reported

continued

on their balance sheets deferred losses on loans or other assets sold. If a deferred loan loss is on an institution's balance sheet, that institution must have reported under RAP at one time or another. This high percentage of institutions with deferred losses attests to the extent of portfolio restructuring among thrift institutions and the likelihood that restructuring has led to an increase in trading activity of pass-through securities.

Thrift institutions have also engaged in restructuring through mergers. The number of FSLIC-insured institutions has dropped from 4002 at the end of 1980 to approximately 3169 in August 1984. This 20 percent decline in the number of institutions gives some evidence of the extent to which mergers have occurred in the thrift industry.

After a merger, low coupon loans and pass-through securities can sometimes be sold without the recognition of a loss for financial statement purposes if the merger has been completed under the purchase method of accounting. The purchase method of accounting is acceptable under Generally Accepted Accounting Principles (GAAP). Under the purchase method of accounting, the assets of the acquired institution are recorded on the new institution's balance sheet at market instead of at book value, which may be higher. The difference between the market value of the assets and the purchase price is recorded as goodwill on the balance sheet. For certain financially troubled banking and thrift institutions, goodwill must be amortized using an accelerated method over the lesser of 40 years or the remaining life of the long-term, interest-bearing assets that were acquired in the transaction.

Immediately after a purchase accounting merger, a thrift can generally sell fixed-rate pass-throughs without a loss recognition. This provides a perfect opportunity for portfolio restructuring that many thrifts have used. Thus, as a result of pass-through sales after purchase accounting mergers, trades of mortgage securities have increased.

Thrift portfolio restructuring could also help to explain why the turnover ratio for Freddie Mac PCs and Fannie Mae CMBSs has continued to rise in 1984 while the turnover ratio for Ginnie Mae has declined in this period. Thrifts collectively hold a slightly smaller dollar amount of Ginnie Maes than other pass-throughs (Freddie Mac PCs plus Fannie Mae CMBSs). Moreover, thrifts' share of the total dollar amount

Chart 1:

Mortgage Pass-Throughs Outstanding (Billions of dollars, end of period)

	1981	1982	1983	1984Q2
Ginnie Maes	$105.8	$118.9	$159.8	$170.9
Freddie Mac PCs	$ 19.9	$ 43.0	$ 57.9	$ 61.3
Fannie Mae CMBSs	$ 0.7	$ 14.4	$ 25.1	$ 29.3
Total	$126.4	$176.3	$242.8	$261.5

Source: Federal Reserve Bulletin, September 1984

Chart 2:

Trading of Mortgage Pass-Through Securities (Dollars in Billions)

	1981	1982	1983	Jan.-June 1984
Ginnie Maes				
Trades	$119	$180	$401	$364
Turnover Ratio	1.2	1.6	2.9	2.2
Other Pass-Throughs				
Trades	$ 12	$ 50	$105	$170
Turnover Ratio	0.7	1.5	1.5	1.9
Total Pass-Throughs				
Trades	$131	$230	$506	$534
Turnover Ratio	1.1	1.6	2.4	2.1

Notes: Turnover ratio calculations based on the outstanding volume of Ginnie Maes, PCs and CMBs in the middle of the period. Farmers Home securities are excluded because the majority of the securities is held by the Federal Financing Bank. 1984 data have been annualized. Data on trades reported by the New York Federal Reserve. The data have been adjusted for regional trading and double counting.

Chart 3:

Turnover Ratio for Treasury Securities

	1978	1979	1980	1981	1982	1983
Turnover Ratio	3.9	4.7	6.2	7.7	9.2	9.6

Notes: Trades include immediate and forward transactions and exclude transactions between dealers. Outstanding volume measured by Treasury securities held by the public and the Federal Reserve Banks. Turnover ratios calculated from the average daily transaction volume reported by the Federal Reserve Bank of New York.

of outstanding Ginnie Maes is smaller than their shares of outstanding Freddie Mac PCs and Fannie Mae CMBSs. Given these two factors, thrift portfolio restructuring would be expected to lead to sales of fewer Ginnie Mae securities, and thus have a smaller impact on the Ginnie Mae turnover ratio than it has had on the turnover ratios for other pass-through securities.

Dollar rolls

The increased popularity of dollar rolls provides another possible explanation for the rise in reported trades of pass-through securities. A dollar roll is a simultaneous agreement to sell a security and then buy a similar but not identical security back at a future date at an agreed-upon price. In its survey, the New York Federal Reserve excludes repurchase agreements, reverse repurchase agreements, and similar contracts from the reported trades of pass-through securities. The New York Fed does not explicitly ask dealers to exclude dollar rolls from the trading reports. Consequently, the heightened popularity of dollar rolls may be increasing the turnover ratio for pass-through securities if some dealers are reporting dollar rolls as trades.

Book-entry processing: Freddie Mac's response

The growth in trading has resulted in an increase in the paperwork burden of documenting and executing trades. Freddie Mac is actively taking steps to eliminate or reduce the amount of paperwork involved in trading securities. The corporation has announced plans to issue PCs through the book-entry system of the Federal Reserve Bank of New York (FRB-NY) beginning in January 1, 1985.

Freddie Mac plans to replace the paper certificate form of trading its PCs with an electronic system. The corporation is the first in the industry to adopt a book-entry processing system. The FRB-NY will act as registrar, transfer, and paying agent for Freddie Mac PCs, and the PCs will trade electronically on the Fed wire. The FRB-NY already handles the Corporation's debentures and discount notes on book-entry.

Because change in the ownership of the PCs will no longer require that paper documents change hands, a number of paper-intensive activities will be curtailed or eliminated, including having to move the securities among safekeeping accounts, verifications, and

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DAVE BROOKS, President and Chief Executive Officer

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courier deliveries of certificates. The creation of a more efficient electronic system is expected to have an immediate effect on the number of transactions that fail, due to incomplete delivery of paper certificates. A reduction in the number of "fails" should result in lower dealer trading costs and a better level of service to investors.

Book-entry has other advantages to PC investors. It will reduce the time required in the monthly check disbursement process by eliminating the float. Monthly payments will be deposited by Freddie Mac at FRB-NY, which will transfer appropriate amounts to the depository financial institutions holding the book-entry securities. The depository financial institutions will then be in a position to make the funds available on the payment to the dealers and investors holding the securities.

The phenomenal growth in the trading of mortgage pass-through securities that has occurred during the last two and one-half years is likely to have been the result of both economic and regulatory factors. First, a policy shift by the Federal Reserve has led to a dramatic increase in the volatility of interest rates. This heightened volatility has created differing expectations among investors and has resulted in greater trading activity. In addition, massive portfolio restructuring by thrifts, motivated by economic conditions and aided by regulatory incentives, has increased trading of mortgage securities as thrifts have disposed of low-yielding, long-term assets. These two factors, combined with the increasing popularity of dollar rolls and other factors, have led to a fourfold increase in the dollar volume of mortgage pass-through trades since 1981. This rapid increase in trading activity has placed severe strains on the trading system. Accordingly, Freddie Mac has taken steps to improve the efficiency of trading among PC investors. With the scheduled introduction of book-entry processing, PC trading can continue to grow unconstrained by the inefficiencies of a trading system based on paper certificates. □

FEDERAL BUDGET DEFICITS *and* ZERO SUM GAMES

Edison Zayas

"An old proverb says that heavenly vengeance pursues a crime slowly but nevertheless catches up with it in the end. In matters of debt, the penalty is not halting; it pursues the culprit at a gallop."

unknown French economist-1820

ILLUSTRATION BY: KEN KRAFCHEK

Among the many challenges faced by public policymakers today, few are as critical to our nation's economic health and to the housing-related industries as the need to reduce dramatically the existing and projected federal budget deficits. While the presence of an anti-inflationary monetary policy is an absolutely necessary ingredient in the policy prescription for sustainable economic growth, events in the last few years have shown that the price stability fostered by a sound monetary policy cannot by itself ensure long-lasting and broad-based economic growth. For that to occur, our nation's fiscal policy must also be on a sound footing.

Indeed, when the 99th Congress convenes early in 1985, intensified efforts to reduce federal budget deficits will command top billing on the legislative agenda. It is also widely believed that the future health of housing-related industries in particular will depend a great deal on how successful those deficit-reducing efforts turn out to be. Further, the methods by which legislators attempt to reduce those budget deficits will be as important as the amounts by which the deficits are actually lowered.

Federal budget deficits and capital formation

A speedy resolution of the budget deficit problem is particularly important to mortgage bankers because the health of the real estate finance industry depends on the availability of a pool of loanable funds derived from our nation's stock of savings. Due to the fact that federal budget deficits are financed out of the same stock of savings, federal borrowing used to finance those deficits diverts funds to the federal government that might otherwise be available for private sector investment outlays.

In recent years, this diversion of national savings to the federal government has grown to the point where federal borrowing is now absorbing the bulk of yearly savings growth. For example, in the latter half of the 1970s, federal budget deficits averaged about 23 percent of the yearly growth in net national savings, and in 1979 the budget deficit was only 9 percent of national savings (see Table 1). This relatively low rate of federal absorption of savings was due to steadily rising national savings growth and to steadily declining federal budget deficits in that period.

Beginning in 1980, however, a reversal of that trend began to occur. As economic activity declined between 1980 and 1982, savings growth slowed, and federal budget deficits rose abruptly in response to both the slower economic growth and the transitory effects of the 1981 tax cuts. The result was that by 1983, the federal budget deficit was absorbing 75 percent of the yearly growth in national savings. In other words, out of the total amount of funds added to our national stock of savings in 1983, three-quarters of that amount was siphoned off by the federal government, leaving a scant one-quarter of those funds available for private sector investment.

The increase in the federal government's borrowing requirements can also be measured by observing federal intervention in the credit markets (see Table 2). Throughout the last half of the 1970s, funds raised by the federal government averaged about 17 percent of the total funds raised by nonfinancial sectors on a yearly basis. From 1982 through 1983, however, the share of federal borrowing more than doubled, accounting for an annual average of 31 percent of total funds raised. In 1983, the share of federal borrowing was about 37 percent of total funds raised, and it was as high as 41 percent in 1982.

In short, the large federal budget deficits experienced over the last four years have dramatically raised the federal government's participation in the credit markets. This, in turn, has greatly limited the availability of inexpensive domestic capital to the private sector.

Structural vs. cyclical federal budget deficits

What makes this rising trend in federal borrowing particularly disturbing is that the federal budget deficits spawning these federal credit demands are not expected to decrease significantly with sustained increases in economic growth. Typically, federal budget deficits rise sharply in response to economic contractions that force tax revenues down and unemployment compensation outlays up. Conversely, as the economy enters into the recovery stages of business cycles, budget deficits have typically declined approximately to the levels that existed at the peaks of previous cycles.

Unfortunately, however, the previous pattern of rapidly declining federal budget deficits is not likely to be repeated during the recovery phase of this cycle. The Council of Economic Advisers estimates that more than three-quarters of the federal budget deficit is attributable to structural factors, such as rising Social Security and Medicare payments associated with the relative aging of the American population and to the snowballing volume of net interest costs incurred by the federal government (see Table 3). As a consequence, even if the unemployment rate approaches 6 percent, a rate many economists associate with full employment, the federal budget deficit is still expected to remain around $200 billion without corrective action. Thus, even a booming economy, leading to full employment, will not eradicate the budget deficit. The implication is that

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if appropriate legislative action is not taken, large budget deficits will plague our economy for years to come.

The ramifications of such a fiscal outlook are especially troubling for the interest-sensitive sectors of the economy like the real estate finance industry. Given that the Federal Reserve Board is unlikely to monetize future budget deficits by increasing money supply growth to accommodate federal borrowing needs, the implication of large budget deficits is that private sector capital formation is likely to be "crowded out." Further, the extended presence of large federal borrowing implies that at a given level of industrial capacity use, interest rates will be higher than would otherwise be the case. This effect is already visible. In the third quarter of 1973, when the rate of capacity utilization was at a high of 87.8 percent, short-term interest rates averaged 8.3 percent. Today, the rate of capacity utilization is only around 82.6 percent, and yet short-term interest rates are over 10 percent.

Foreign capital and budget deficits

While some point to the strength of the current recovery as evidence that the record-high budget deficits have had no detrimental impact on the economy, the fact is that without the foreign capital inflows experienced over the last three years, the federal government's heavy borrowing requirements would most assuredly have fostered higher interest rates than what we have today.

According to the Council of Economic Advisers, capital inflows attracted from abroad by high U.S. interest rates are financing roughly 40 percent of the federal budget deficit. In effect then, the voluminous influx of foreign capital has, to a large degree, financed the U.S. recovery by boosting our savings pool and by allowing the vigorous upturn in consumption and investment expenditures to occur in the presence of large federal budget deficits.

Although these investment funds from abroad have been a major factor in sustaining the current recovery by dampening interest rate pressures emanating from our budget deficits, we should not rely on foreign investments as a means of financing our economic expansion because the government could incur substantial costs and would experience serious limitations as well. First, because foreign investors must purchase dollars to buy dollar-denominated securities, strong foreign capital inflows have augmented the appreciation of the foreign exchange value of the dollar. This in turn has contributed to the severe erosion of the price-competitiveness of U.S. exports.

Since 1981, the trade-weighted value of the dollar vis-a-vis the currencies of the Organization for Economic Cooperation and Development (OECD) countries has increased by over 30 percent, contributing to a 15 percent decline in the dollar volume of U.S. merchandise exports. Conversely, the corresponding depreciation of the foreign exchange values of the currencies of our major trading partner countries has contributed to a 22 percent increase in the dollar volume of imported goods since 1981. As a consequence, we are now incurring a merchandise trade balance deficit of around $120 billion at an annual rate, and employment in our trade-related industries is down sharply. While there are no reliable estimates available regarding the

continued

Table 1

National Savings ($ billions)

	1976	1977	1978	1979	1980	1981	1982	1983
Personal Savings	$ 82.5	$ 78.0	$ 89.4	$ 96.7	$106.2	$130.2	$125.4	$114.7
Undistributed Corporate Profits w/IVA[1] & CC[2] Adj.	36.9	53.7	62.1	54.5	38.9	44.4	37.0	78.3
State & Local Gov. & Surplus/Deficit	6.6	28.0	30.3	30.4	28.1	31.7	31.3	51.1
Capital Grants Received by U.S.	0	0	0	1.1	1.1	1.1	0	0
Net National Savings	$136.0	$159.7	$181.8	$180.5	$172.1	$205.2	$193.7	$244.1
Federal Budget Deficit*	$ 53.1	$ 45.9	$ 29.4	$ 16.1	$ 61.4	$ 60.0	$147.1	$182.8
Federal Budget Deficit as Percent of Net National Savings	39.0%	28.7%	16.2%	8.9%	35.7%	29.2%	75.9%	74.9%

[1]*Inventory Valuation Adjustment* [2]*Capital Consumption*

**Budget deficits on national income and product accounts basis.*

Source: National Income and Product Accounts, Bureau of Economic Analysis, U.S. Department of Commerce.

Table 2

Federal Borrowing in the Credit Markets
($ billions)

Year	Net Borrowing by U.S. Government	Total Funds Raised by Nonfinancial Sectors	Federal Borowing as Percent of Funds Raised
1983	$186.6	$509.5	36.6%
1982	161.3	395.3	40.8
1981	87.4	377.2	23.2
1980	79.2	343.2	23.1
1979	37.4	386.0	9.7
1978	53.7	369.8	14.5
1977	56.7	319.4	17.8
1976	69.0	243.5	28.3

Source: Federal Reserve Board Flow-of-Funds

employment impact of the trade imbalance on our import-competing industries, the Department of Commerce estimates that between 1980 and 1983 roughly 1.5 million jobs were lost in U.S. export-related industries alone. Although not all of that decline in export-related employment can be attributed to the strength of the dollar, it is reasonable to assert that the deterioration in the price-competitiveness of U.S.-made goods fostered by the appreciation of the dollar has been a significant factor in the drop in export-related employment.

The effect of foreign financing of our domestic budget deficits has been to shift the burden of the pricing-out effect to our export- and import-competing industries, with proportionately less being borne by the construction, consumer, and capital goods industries.

Further, this foreign financing of a great portion of our federal budget deficit involves another significant cost. By commiting ourselves to a future payment stream of interest and dividends, we are issuing to the rest of the world claims on our future output. Consequently, although the influx of foreign capital has allowed our economic expansion to occur in the presence of record-high budget deficits, this borrowing from abroad means that less of our resources belong to us because a greater amount of our future industrial production will go towards paying off our debt to foreign countries.

Finally, and perhaps most importantly, foreign financing of our budget deficit, albeit partial, nevertheless increases our domestic economy's vulnerability to the volatile swings in international capital flows. Should foreign investors pull out their funds in response to a sudden loss of confidence in U.S. economic policies or conditions, interest rates in this country would increase sharply. This in turn would abort our recovery and raise the specter of widespread loan defaults by the debt-ridden, less-developed countries. Ostensibly, the probability attached to the latter course of events increases the length of time we rely on foreign funds to finance major portions of our federal government's borrowing requirements.

In short, greatly reducing the existing federal budget deficit is critical to the health of the real estate industry and to that of the American economy as a whole. Lower deficits will increase the availability of investment funds to the private sector, allow for more balanced economic growth, and reduce our costly and potentially destabilizing dependence on foreign capital.

Deficit reduction policy alternatives

The manner in which the deficit will be reduced is as important as the amount by which it is reduced. Persistently large federal federal budget deficits are harmful because they absorb the financial resources (i.e., savings) needed to fund the future investments required to maintain and/or improve commercial competitiveness and living standards. Consequently, the appropriate goal in dealing with our fiscal problem is not necessarily to reduce the size of the deficit per se, but rather to decrease the size of the deficit relative to national savings. The strengths and weaknesses of proposed policy actions aimed at improving our federal government's fiscal standing should be judged in the context of the latter criteria.

Suggested alternatives

Alternative 1—Do Nothing Policy: A minority of analysts and public policymakers argue that sustained, vigorous economic growth will, by itself, substantially reduce the size of the budget deficit over time. According to this school of thought, there is also no evidence to support the belief that federal deficits are in fact harmful to economic growth. Typically, proponents of this view have pointed out that numerous studies have been unable to show a positive and statistically significant correlation between budget deficits and high interest rates. At the same time, they argue that with the integration of the international capital markets, domestic federal budget deficits lose much of their significance in terms of their impact on our domestic credit markets. The implication of the latter line of reasoning is that because of the magnitude of foreign capital inflows, there is no reason to believe that federal deficits will significantly crowd out private sector investment funds.

While there are elements of truth in most of these arguments, on balance they do not convincingly support the view that deficits do not matter. First, although the cyclical component of the budget deficit accounted for roughly 50 percent of the total deficit in 1982 and 1983, both the Council of Economic Advisers and the Congressional Budget Office confirm that for fiscal years 1984 through 1989, the cyclical component will decline steadily, and the structural component will rise disproportionately, accounting for well over three-quarters of the deficit throughout the remainder of the decade. According to these sources, strong economic growth will not substantially curtail the deficit, because the bulk of it is caused by the growth of autonomous federal spending

continued

commitments that are unrelated to the pace of economic activity.

Second, in a study[1] presented before the Western Economic Association in June 1984, it was shown that previous studies that revealed no positive relationship between budget deficits and interest rates do in fact disclose such a relationship when one separates the cyclical component from budget deficits and the effects of foreign capital inflows on domestic interest rates. While the authors of the study caution that their results do not entirely resolve the controversy over the economic effects of federal budget deficits, the study strongly suggests that deficits do indeed affect interest rates in ways that one would expect. The failure of previous studies to show that relatively large budget deficits produce higher interest rates appears to be because the effect of deficits on interest rates was being disguised by the failure to take into account the effect of foreign capital on United States interest rates and the cyclical vs. structural components of budget deficits.

However, even if one temporarily ignores the findings of the latter study, the inability initially to detect a positive relationship between budget deficits and interest rates during the 1960s and 1970s should not be surprising. In the 20-year period between 1960 and 1980, the average annual deficit incurred at all levels of government was only 0.6 percent of GNP. During that time, federal deficits were almost offset by surpluses at the state and local level. Given the fact that net national savings averaged between 6 and 8 percent of GNP at that time, almost all of the flow of private savings was available for private sector investment because the size of government deficits was comparatively minor. Therefore, under these circumstances, one would not expect federal budget deficits to have significantly influenced interest rates because no crowding out of financial resources was effectively taking place.

Current and projected circumstances, however, are vastly different. Federal budget deficits are now accounting for about 5 percent of GNP and total government deficits roughly 4 percent of GNP. Barring any significant changes in the tax code, net national savings are not expected to rise appreciably above their long-term trend of about 7 percent of GNP. This implies that government deficits are absorbing far more private savings than what was even experienced in the 1960 to 1980 period. Under this entirely new set of circumstances, the likelihood of financial pricing-out taking place is substantially higher, and common sense dictates that the probability of observing a positive relationship between large budget deficits and high interest rates is much greater. In fact, interest rates at this stage of the ongoing business cycle are already far above the interest rate levels that prevailed during the analogous phases of previous cycles.

Massive inflows of foreign capital have to a very large degree diminished the potentially adverse effects of large budget deficits on our capital markets. Capital from abroad is currently financing about 40 percent of the federal budget deficit. However, there are substantial long-term costs associated with foreign financing of our budget deficit that significantly detract from the short-term benefits. To argue that large budget deficits are less harmful to long-term economic growth because foreign capital inflows supplement our domestic capital stock ignores the very real risks associated with being a net debtor country.

Table 3

The Cyclical and Structural Components of the Deficit: 1980-89 ($ billions)

Fiscal year	Total deficit	Deficit as percent of GNP	Cyclical component	Structural component	Structural as percent of trend GNP
Actual					
1980	$ 60	2.3%	$ 4	$ 55	2.1%
1981	58	2.0	19	39	1.3
1982	111	3.6	62	48	1.5
1983	195	6.1	95	101	2.9
Projected					
1984	$187	5.3%	$49	$138	3.7%
1985	208	5.3	44	163	4.2
1986	216	5.1	45	171	4.1
1987	220	4.8	34	187	3.9
1988	203	4.1	16	187	3.8
1989	193	3.6	-4	197	3.8

Source: Economic Report of the President, *Council of Economic Advisors, February 1984.*

It is fair to say that most analysts and policymakers agree that to do nothing about the federal budget deficit risks certain economic stagnation, while it also increases our vulnerability to swings in international capital flow. Therefore to do nothing about the budget deficit is an unacceptable course of action.

Policy Alternative 2—Cut Federal Spending: It is widely recognized that a dramatic reduction in federal spending is by far the most preferable manner in which to curtail the size of the deficit. Government spending absorbs resources that otherwise would be available for use by the private sector. Indeed, government spending is the real measure of the tax burden on our society, for all government programs must be financed by taxes, be they explicit or implicit (i.e., hidden) taxes resulting from inflation. Thus, reducing federal spending is the most effective way of decreasing the budget deficit, because it directly frees up resources for the private sector and by so doing has a stimulative effect on the economy.

Unfortunately, recent efforts to achieve significant reductions in federal spending have failed miserably. The inability to achieve substantial spending reductions is principally due to the fact that past efforts were aimed mainly at cutting outlays in the nondefense, discretionary spending category of the federal budget. Programs in the

continued

Table 4

Projected Federal Budget Outlays, By Major Category FY1984 and FY1989 ($ billions)

	FY1984	FY1989	Change
National Defense	$230	$ 406	76.5%
Entitlements & Other Mandatory Spending	396	551	39.1
Nondefense Discretionary	155	199	28.4
Net Interest	111	214	92.8
Offsetting Receipts	-47	-66	40.4
Total Budget Outlays	$845	$1,305	54.4
National Defense	27.2%	31.1%	
Entitlements & Other Mandatory Spending	46.9	42.2	
Nondefense Discretionary	12.8	10.2	
Net Interest	13.1	16.5	
Total	100%	100%	

Source: Economic and Budget Outlook: An Update *August 1984, Congressional Budget Office.*

nondefense, discretionary spending category are more vulnerable to cutbacks, because expenditures on those programs are determined through the annual Congressional appropriations process. However, spending programs in the latter category account for the smallest proportion of total federal outlays and are projected to be the slowest-growing among all the major federal spending categories.

In fiscal year 1984, nondefense, discretionary spending accounted for about 13 percent of total federal outlays, and even if no additional deficit-reduction measures are undertaken, spending in that category is expected to decline to 10.2 percent of federal outlays by fiscal year 1989 (see Table 4). Thus, with a projected fiscal year 1984 budget deficit of $172 billion, even if every program in the nondefense, discretionary spending category were eliminated, a deficit of $64 billion would still exist.

While the prospect of eliminating all of these programs is neither appropriate nor realistic (this category includes the legislative, judicial, tax-collecting functions; grants to state and local governments; nondefense research and development; the FBI; the Space Shuttle; the Coast Guard, and so on) even the outright elimination of all these programs would not succeed in eliminating the deficit. In any event, Congress has already balked at consenting to further cuts in these areas. Thus, a genuine effort to cut federal spending precludes focusing on the nondefense, discretionary spending elements in the budget. Instead, cost-cutting plans will have to be directed towards the big ticket items in the budget that can generate truly sizeable savings.

In Table 4, it is clear that if spending is to be cut sufficiently to have a substantial impact on the budget deficit, dramatic cutbacks in projected defense and entitlement expenditures will have to occur—both of which are considered to be fiscal "sacred cows."

In the national defense area, for instance, the general perception among political leaders is that the American public supports a strengthening of U.S. defense capabilities during these highly uncertain times in world affairs. While Congress has not approved large portions of the Reagan Administration's defense spending requests, the fact is that during the last three years defense outlays in real terms have increased by 25 percent. Further, although Congress has significantly scaled back the Reagan Administration's defense budget requests in the last two fiscal years (the real growth rate requested was cut in half in 1983 and by two-thirds in 1984), it is widely perceived that defense spending may nevertheless increase at a real average annual rate of approximately 5 percent through the remainder of this decade. This in turn implies that defense spending will increase by over 76 percent between fiscal years 1984 and 1989, and defense outlays will account for over 31 percent of total federal outlays by the end of the decade. Thus, barring a sudden change in sentiment on the part of the public and Congress, it is unlikely that expenditure reductions will occur in the national defense area that are large enough to have an appreciable impact on the budget deficit.

Clearly then, if spending cutbacks of any significance are to be realized, they will have to occur in the entitlement and other mandatory spending programs. These are programs where spending is governed by laws making all individuals who meet specified requirements eligible to receive federal payments. Outlays in these programs are not determined by annual appropriations. The principal entitlement programs are Social Security, Medicare, Medicaid, agricultural commodity price supports, and other entitlements, which include Aid to Families with Dependent Children, Supplemental Security Income, unemployment compensation, and food stamps, among many others.

It is in these mandatory spending programs where the growth in federal expenditures has been the most dramatic. First, changes in demographic conditions (an aging population) and economic factors (rising nominal wages) caused both the number of beneficiaries and the benefit levels to grow sharply on their own. Second, legislative actions that created new programs or modified existing program rules served to expand benefits for the pool of eligi-

continued

ble recipients. As a consequence, from 1965 to 1983 expenditures on entitlement programs grew from 5.5 percent of GNP to 12.4 percent of GNP. In particular, outlays on the non-health entitlement programs, (e.g., Social Security Service Retirement, unemployment insurance, food stamps), picked up sharply in the 1970-1975 period, as eligibility requirements were liberalized, benefit levels raised, and cost-of-living-adjustments (COLAs) instituted. Social Security outlays, for example, increased by 680 percent between 1965 and 1980. Moreover, reflecting the escalating costs of health care nationwide, outlays on health care entitlement programs (Medicaid and Medicare) have also risen astronomically. Much of this increase has been due to improvements in the quality of health care resulting from technological advances, while much has been fostered by the increased demand for health care instigated by the wider availability of health insurance coverage (private coverage as well as Medicare and Medicaid).

The net result of this explosion in entitlement program expenditures has been that mandatory programs now account for almost 47 percent of total federal outlays, and, if left unchanged, spending on entitlement programs is projected to increase by almost 40 percent between now and fiscal year 1989. To be sure, if spending cuts are to play any meaningful role in future efforts to reduce the size of the federal budget deficit, simple arithmetic dictates that benefits in the entitlement programs will have to be cut back. More specifically, because benefits in the non-means-tested programs (Social Security, railroad retirement, military and civil services retirement, veteran's benefits, and unemployment insurance) constitute 82 percent of total non-health entitlement spending, it is clear that these programs will have to be scrutinized carefully. Similarly, because outlays in the Medicare program are projected nearly to double between fiscal years 1984 and 1989 without corrective action, an effort at cost containment in this area will require either limiting hospital and/or physician reimbursements or require beneficiaries to bear a greater share of the medical costs.

Whatever spending reductions are made in the entitlement programs, it is critical that they take place quickly, rather than occur in the out-years of the budget projections. The sooner large spending reductions are realized, the smaller the adverse impact of the budget deficit on capital formation will be. At the same time, the longer it takes for spending cuts to occur, the greater the chances that those legislated expenditure reductions will be repealed at a later date.

Obviously, the political risks associated with the scaling back of these entitlement programs are so high that it seems reasonable to suggest that significant spending cuts in these areas, while possible, are highly improbable. The combined proclivity toward survival and the political acumen of our legislators make it doubtful that they will clearly outline to the voters that substantial federal spending cuts necessarily involve reductions in entitlement program benefits.

> **"The ideal method to lower federal budget deficit would be to dramatically decrease government outlays."**

Of course, if our political leaders refuse to put a halt to the spiraling costs of entitlement programs, there is another obvious alternative they could resort to—raising taxes.

Policy Alternative 3—Raise Taxes: When considering the difficult choices confronting policymakers on the spending side, the probability is much higher that legislators will seek to close the gap between federal spending and federal revenues by increasing taxes. Since the enactment of the Economic Recovery Tax Act in 1981, which lowered taxes by almost $750 billion between fiscal years 1981 and 1986, two bills have been enacted that have raised taxes with the intent of reducing the budget deficit. In 1982, the Tax Equity and Fiscal Responsibility Act (TEFRA) was enacted, raising taxes by an estimated $214 billion; in 1984, the Deficit Reduction Act was signed into law, increasing taxes by an additional $50 billion. Thus, more than a third of the 1981 tax cuts has already been reversed.

In all likelihood, this trend of relying principally on tax increases to lower the budget deficit will persist in 1985. Indeed, the question is not whether taxes will be raised, but rather, which taxes will be raised. To be sure, the manner in which taxes are raised will be of critical importance to the long-term viability of the real estate finance industry. It is the capital-absorption effect of budget deficits that make them harmful to economic growth over the long run. Consequently, the deficit problem should be viewed in the context of budget deficits relative to national savings. If one accepts the proposition that tax increases will by far outweigh spending reductions in upcoming deficit-reduction initiatives, then it is critically important that those tax increases not be biased against savings. Tax increases that have an adverse impact on savings and investment incentives will either neutralize the benefits derived from potentially lower deficits or will exacerbate the very capital-absorbing effect that makes budget deficits harmful.

Unfortunately, the tendency of policymakers has been to focus exclusively on the effectiveness of proposed policy actions on lowering the size of the deficit itself, without regard to the impact of those actions on capital formation. For example, in the 1982 tax-raising bill, one of the provisions would have imposed tax withholding requirements on interest and dividend

continued

payments made to savers and investors. The intent of that provision was to help lower the deficit by increasing tax collections on unreported interest and dividend earnings.

The inclusion of this provision in the 1982 tax act was a classic example of the failure of our legislators to understand why budget deficits matter and how we should go about dealing with them. Although the interest withholding provision did not represent a tax increase on interest and dividend earnings, it did represent a strengthening of a provision in the tax code that explicitly penalizes people for saving money. As such, the taxation of interest and dividend earnings has an inhibiting effect on capital formation and thereby stunts the growth of the pool of loanable funds used to finance both private and public sector credit needs.

Therefore, if one accepts the notion that budget deficits are harmful because they absorb an already limited pool of savings, then it makes no sense to strengthen a tax code provision that is a key factor in limiting that pool of savings. While the interest withholding provision was eventually repealed, had the concept of relating deficits to savings been emphasized, it is doubtful that the withholding provision would have been part of the 1982 tax bill.

Similarly, the 1984 Deficit Reduction Act repealed a provision in the tax code that would have permitted an exclusion of 15 percent of an individual's net interest income up to $3,000 ($6,000 in the case of a joint return). This provision, which was enacted in the 1981 tax bill and was to become effective in 1985, would have reduced the perverse effect the taxation of interest earnings has on capital formation. Of course, whatever revenue savings are generated by the repeal of that provision will be offset by the commensurately lower growth in national savings associated with its repeal.

Further, the 1984 tax bill's extension of the real property recovery period from 15 to 18 years under the accelerated cost recovery system (ACRS) should serve as notice that the entire ACRS is vulnerable to change next year in an effort to raise federal revenues. This too would be a counterproductive means of raising revenues, for the existence of ACRS has greatly boosted the ability of companies to invest in plant and equipment in the face of high interest rates. Additional restrictions on ACRS would cut into the investment expenditures needed to improve the long-term competitiveness of American business, which would be short-sighted, to say the least.

If a consensus emerges in the next session of Congress that substantial tax increases will have to be relied upon to bridge the gap between federal spending and revenues, the main challenge facing the key players on both the Senate Finance and House Ways and Means Committees will be how to raise taxes without adversely affecting capital formation.

"The future of the housing industry will remain hostage to the existing federal budget deficit until it is dramatically reduced."

Even if Congress can successfully put together a package of tax increases that have no detrimental effect on savings and investment incentives, the post-World War II experience among the world's major democratic economies, including the United States, has been that tax increases have not resulted in lower government budget deficits. Legislated increases in government revenues have typically been used to finance additional spending because sponsoring new government programs tends to generate more favorable votes than does the earmarking of new revenues to help finance programs already on the books. Thus, if taxes must be raised, the challenge facing Congress is both to raise taxes without impairing savings and investment growth and also to ensure that the added revenues are not used for additional spending.

Economic policymakers in this decade are faced with the formidable task of substantially lowering the federal budget deficit without fostering side effects that negate the intended benefits of the deficit-reduction measures.

Not to act at all risks certain economic stagnation. If left unchecked, the mounting national debt will choke off private sector capital formation and inhibit job creation. The federal budget deficit must be dealt with, and it must be dealt with immediately. The longer that difficult decsions are delayed, the more difficult those decisions will become.

The ideal method to lower federal budget deficit would be to dramatically decrease government outlays. Excessive federal spending is at the heart of the deficit problem, and the focus of deficit-reduction actions should be on curtailing government spending. Lowering federal expenditures not only decreases the deficit, but also decreases the deficit relative to savings and thereby directly releases resources for use by the private sector. As such, the ideal policy would be to slow the growth of federal spending to a rate below that of national income growth.

However, to lower the deficit mainly through spending cuts, the composition of the federal budget would require the politically sensitive entitlement and defense programs to be the principal targets of massive spending reductions. Congress has been traditionally reluctant to tamper with these programs, and political realities suggest that tax increases will continue to outweigh spending cuts in future deficit reduction initiatives. It is imperative that future tax increases have a neutral effect on savings and investment incentives. Tax in-

continued

creases that are biased against savings and investment are a self-defeating means of dealing with the deficit, for they contribute to economic stagnation by limiting capital formation—the very lifeblood of market economies and the real estate finance industry.

If tax increases must constitute a large portion of future deficit-reduction packages, and if those tax increases are to have a neutral effect on savings and investment, a viable alternative is to institute a consumption-oriented tax that is capable of generating substantial revenues at low tax rates. A recent survey shows consumers prefer sales taxes to income taxes. Whether such a tax on consumption takes the form of a value added tax (VAT), a tax on business transactions (TBT), a national sales tax, or an energy tax, the revenues from a consumption tax could be earmarked for lowering the deficit. Many analysts feel that by supplementing income tax revenues a consumption tax would alleviate much of the pressure on the income tax (with all of its anti-savings biases) to produce more revenues. This would permit long-overdue comprehensive tax reform to take place in an atmosphere where the need for revenues does not overwhelm sound tax policy considerations.

The upcoming debate on how to tackle the federal budget deficit will produce a package comprised of both expenditure reductions and tax increases. With luck, there will be a balanced mix of the two alternatives. For this to occur, Congress and the Executive branch will have to face up to the need to restrict entitlement benefits, while recognizing the counterproductive nature of taxes on savings and investment. The ability of our political leaders successfully to meet these tests will determine the fate of the real estate industries. Indeed, the future of the housing industry will remain hostage to the existing federal budget deficit until it is dramatically reduced.□

[1] *"Do Federal Deficits Really Matter?" by James R. Barth, George Iden, and Frank S. Russek.*

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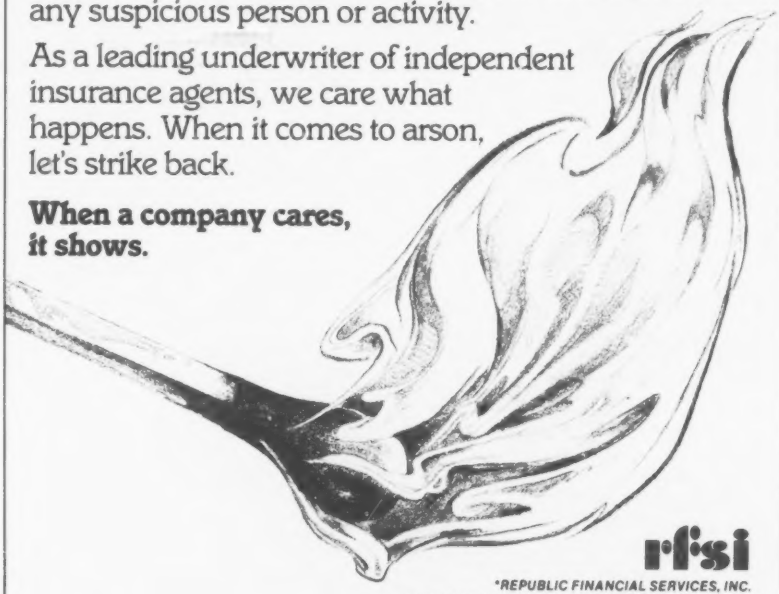

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MORTGAGE MARKET TRENDS

Prepared by MBA's Economics Department

November 15, 1984

If the current economic expansion follows the precedent set by most of the other post-World War II recoveries, then a recession does not appear to be imminent. The present economic slowdown can then be viewed as a pause before growth restabilizes at a moderate pace. After growing at an extremely high rate during the first half of 1984, the real gross national product (GNP) in the third quarter slowed to a much more gradual, but sustainable, 2.7 percent annual rate of growth. This decline can be attributed to a slowdown in consumer and business demand and the continued poor showing of the trade sector of the economy.

A number of variables reflect the drop in consumer and business demand. For instance, both new orders for durable goods and factory orders have declined for the last two months. Following a 0.9 percent drop in August, durable goods orders fell 4.3 percent in September. Although factory orders did not fall as steeply, they did decline by 0.8 percent in August and 1.8 percent in September. Some, but not all, of the drop in durable goods orders can be blamed on the brief automobile strike, because orders for these goods were already relatively weak. In addition, industrial production eased downward by 0.7 percent in September.

The other major contributor to the drop in the GNP has been the huge imbalance in the trade sector. Although exports rose in September, imports rose even faster, bringing the merchandise trade deficit to $12.6 billion for the month. Thus, for the first nine months of the year, the trade deficit is almost $100 billion; for the year it could amount to about $130-$140 billion. The major reason for this unfavorable balance of trade is the extremely strong dollar. It has caused imports to the United States to be relatively less expensive than domestically manufactured goods, and our exports relatively more expensive abroad. Domestically, this trade imbalance has resulted in a drop in production; thus a larger portion of the demand for goods and services is being met by imports.

Commensurate with the economic slowdown, there has been a drop in yields across a broad spectrum of securities and lending markets. Between September 27th and November 7th, the prime rate was reduced four times. During this period, it fell from 13.0 percent to 11.75 percent, or 125 basis points. In addition, yields on both Treasury bills and long-term securities fell, with the drop in short-term instruments more pronounced. A third set of rates that are declining are mortgage rates. According to Freddie Mac, in late October the average interest rate on conventional, fixed-rate mortgages was 14.05 percent. This is a 21 basis point drop from the 14.26 percent figure reported a month earlier, and it is the lowest rate on this type of mortgage since May of this year.

For the remainder of the fourth quarter, interest rates are expected to continue to decline slightly. This is due to the softening in the demand for credit that is associated with the current slowdown in economic activity and the expectation that if it has not done so already, the Fed will ease monetary policy. However, when the economy begins to pick up again in the first quarter of 1985, there will be a corresponding increase in interest rates. Most probably, this increase in rates will be caused by a reversal of the same factors that brought about the recent declines.

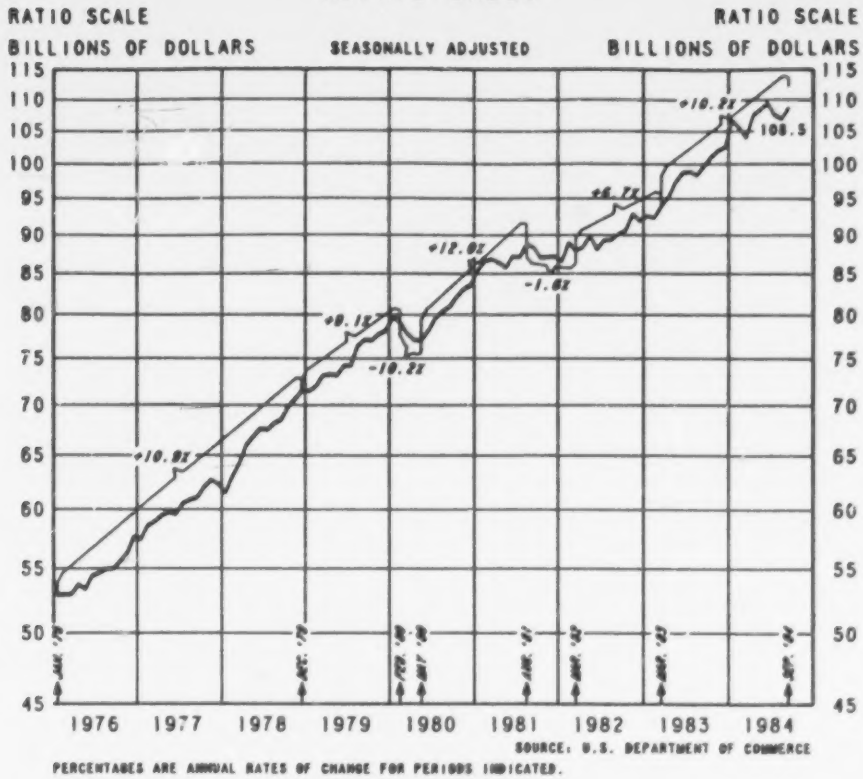
Although the trade sector is not expected to improve in the near future, a number of other economic statistics seem to portend that the overall economy is maintaining its underlying strength and will grow somewhat faster in the first quarter of 1985. For example, after three consecutive monthly declines, the index of leading indicators rose 0.4 percent in September. Six of the 11 available components increased for the month. Most importantly, the slowdown in vendor performance could mean that goods' orders are increasing. Another variable that has shown some improvement is retail sales. Following a substantial 1.2 percent increase in September, retail sales showed almost no movement in October, dropping a slight 0.1 percent. However, this lack of growth can be viewed as an aberation caused by unseasonably warm fall weather.

Another area that has recently shown some improvement is the housing sector. The big news is the huge increase in new home sales in September. For the month, sales of new, single-family homes rose by 22 percent, bringing sales to a seasonally adjusted annual rate of 679,000. Most of this rise reflects a last-minute surge in revenue bond financing, but it is also due to a decline in interest rates. In addition, housing starts also rose markedly, or by 9.0 percent in September. This rise leaves housing starts at a seasonally adjusted annual rate of 1.7 million units, almost the same figure that was reported in September, 1983. A last promising note is that spending on new construction rose 1.1 percent in September. Although this increase is not large, it is the first substantial gain in this area in four months.

Even though new home sales and starts are not likely to remain at their present levels, it is hoped that these increases will act as a stimulant to the housing industry. This extra push should mean that the housing sector will register about the same in 1984 as it did in 1983. In addition, this promising finish could get housing off to a good start in 1985. This in turn could enhance overall economic growth, possibly bringing it up to the 3.0-3.5 percent range for the first quarter of 1985.

Robert M. Rosenblatt
Assistant Economist

RETAIL SALES

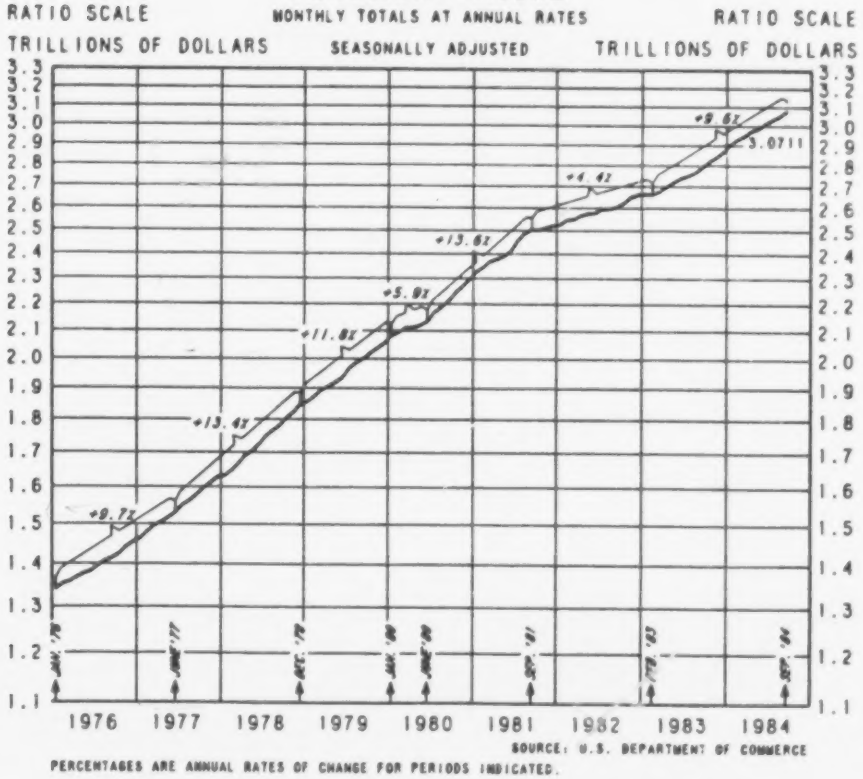


SOURCE: U.S. DEPARTMENT OF COMMERCE

PERCENTAGES ARE ANNUAL RATES OF CHANGE FOR PERIODS INDICATED.

LATEST DATA PLOTTED: AUGUST, SEPTEMBER ADVANCE ESTIMATE

PERSONAL INCOME



SOURCE: U.S. DEPARTMENT OF COMMERCE

PERCENTAGES ARE ANNUAL RATES OF CHANGE FOR PERIODS INDICATED.

LATEST DATA PLOTTED: SEPTEMBER PRELIMINARY

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

MORTGAGE MARKET TRENDS—DECEMBER 1984

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES: Actual			PERMITS 16,000 ISSUING PLACES: Seasonally Adjusted Annual Rate			HOUSING STARTS: Actual			HOUSING STARTS: Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1983												
JUN	173	115	58	1,764	1,151	613	173	125	48	1,743	1,242	501
JUL	148	93	55	1,752	1,068	684	162	113	49	1,793	1,175	618
AUG	155	98	57	1,671	1,032	639	177	121	56	1,873	1,233	640
SEP	150	91	59	1,540	994	546	155	108	47	1,679	1,153	526
OCT	142	89	53	1,650	1,049	601	159	102	57	1,672	1,113	559
NOV	124	79	45	1,649	1,060	589	136	93	43	1,730	1,204	526
DEC	108	65	43	1,602	1,056	546	107	69	38	1,694	1,154	540
1984												
JAN	111	67	44	1,799	1,144	655	109	75	34	1,980	1,415	565
FEB	125	78	47	1,902	1,234	668	130	89	41	2,262	1,611	651
MAR	147	100	47	1,727	1,136	591	138	99	39	1,662	1,208	454
APR	157	105	52	1,758	1,112	646	173	121	52	2,015	1,365	650
MAY	165	109	56	1,745	1,076	669	181	127	54	1,794	1,247	547
JUN	166	102	64	1,768	1,067	701	184	121	63	1,877	1,191	686
JUL	140	89	51	1,565	961	604	162	110	52	1,754	1,108	646
AUG	142	91	51	1,506	943	563	146	102	44	1,539	1,042	497
SEPp	126	79	47	1,424	948	476	148	100	48	1,676	1,123	553
9 months												
1984	1,280	819	462				1,370	943	427			
1983	1,229	799	429				1,300	918	382			
1982	699	445	253				761	541	220			
1981	791	542	248				871	653	219			

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate: Total	1 Unit	2+ Units	Non-Res.
1983				
JUN	147,929	65,797	$22,124	$60,008
JUL	152,028	67,598	25,082	59,348
AUG	157,313	68,746	26,025	62,542
SEP	157,582	68,337	26,614	62,631
OCT	151,063	66,327	25,807	58,929
NOV	154,272	65,385	26,525	62,362
DEC	156,642	64,924	27,721	63,997
1984				
JAN	163,534	69,047	27,816	66,671
FEB	171,331	73,496	28,791	69,044
MAR	175,184	74,182	28,169	72,833
APR	176,937	74,988	27,692	74,257
MAY	185,108	75,810	30,558	78,710
JUN	181,326	75,448	29,539	76,339
JUL	179,724	74,087	30,932	74,705
AUG	181,819	71,975	33,185	76,659
SEPp	185,656	70,124	34,619	80,913

HOUSE SALES
(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES: Sold	Available For Sale	Months Supply at Current Rate
1983				
JUN	283	59	283	5.3
JUL	260	51	288	5.8
AUG	280	50	296	6.3
SEP	240	48	302	6.4
OCT	224	51	302	5.8
NOV	202	45	309	5.9
DEC	180	48	303	4.7
1984				
JAN	178	52	301	5.3
FEB	202	58	304	5.2
MAR	263	63	317	5.9
APR	269	61	325	6.0
MAY	288	59	331	6.6
JUN	294	58	340	6.5
JUL	287	52	341	6.7
AUG	273	49	349	7.3
SEPp	216	55	347	6.5
9 months				
1984	2,250	506		
1983	2,115	479		
1982	1,462	297		
1981	1,909	345		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES: Actual				PERMITS 16,000 ISSUING PLACES: Seasonally Adjusted Annual Rate				STARTS: Actual				STARTS: Seasonally Adjusted Annual Rate			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1983																
MAY	15	19	78	38	152	192	913	403	17	25	93	40	165	228	984	402
JUN	18	21	88	45	178	200	942	444	18	25	89	42	175	216	935	417
JUL	16	17	78	37	178	194	969	411	18	23	82	39	166	230	979	418
AUG	18	21	79	38	178	198	896	399	22	25	92	38	186	237	1,015	435
SEP	18	21	74	37	168	181	797	394	15	23	84	34	138	221	938	382
OCT	15	20	74	33	161	195	889	405	16	23	87	33	160	197	947	368
NOV	12	16	68	29	152	191	897	409	14	18	75	30	156	214	939	421
DEC	11	9	58	30	174	182	812	434	9	9	63	25	148	214	955	377
1984																
JAN	7	8	63	33	172	239	872	516	7	9	61	32	195	319	927	539
FEB	10	11	68	35	234	267	884	517	9	11	77	33	311	352	1,127	472
MAR	14	16	75	42	184	207	808	528	11	15	77	35	170	229	832	431
APR	17	21	77	42	186	223	879	470	17	21	89	46	212	245	1,023	535
MAY	22	22	76	45	218	206	854	467	19	27	88	47	171	241	910	472
JUN	18	22	78	48	184	223	874	487	23	32	87	42	234	293	930	420
JUL	17	21	64	38	178	229	749	409	20	23	78	40	184	242	914	414
AUG	19	20	64	39	184	190	726	406	21	23	67	35	183	224	734	398
SEPp	17	18	57	34	176	171	688	389	19	23	69	36	186	235	824	431
9 months																
1984	142	158	624	356					146	187	692	346				
1983	125	143	663	298					128	167	712	293				
1982	76	86	385	154					83	106	430	142				
1981	86	105	393	207					88	128	459	192				

CONSTRUCTION STATUS
(units in thousands)

Year and Month	UNDER CONSTRUCTION: Total	1-4 Units	5+ Units	COMPLETIONS: Total	1-4 Units	5+ Units
1983						
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	155	106	49
SEP	1,025	632	393	133	99	34
OCT	1,025	620	405	153	110	43
NOV	1,035	616	419	125	94	31
DEC	1,003	582	421	138	102	36
1984						
JAN	995	578	417	112	76	36
FEB	1,008	586	422	109	77	32
MAR	1,022	600	422	119	82	37
APR	1,064	632	432	127	86	41
MAY	1,098	660	438	143	95	48
JUN	1,118	672	446	156	104	52
JUL	1,132	677	455	146	102	44
AUG	1,127	671	456	150	107	43
SEPp	1,131	666	465	145	105	40
9 months						
1984				1,207	834	373
1983				976	713	263
1982				714	522	211
1981				945	703	243

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES: FHA Opinion Survey: FHA New[2]	Conventional: New	Conventional: Existing	FHLBB Survey: Conventional: New	Conventional: Existing	APARTMENTS[3]	CONSTRUCTION LOANS[4] ALL TYPES	FNMA: Mandatory Delivery Yields: ARM (5 yr. Treas.)	FNMA: Mandatory Delivery Yields: Conv.	GNMA Current Securities Yield[5]	SELECTED SECURITIES: Aaa Utility[7] New Issue	U.S. Gov't.: 10-yr.	U.S. Gov't.: 26-wk.	Prime Commercial Paper 90-119 Days	SPREADS (Basis Points): FHA New Minus Aaa Utility	GNMA minus 10-yr. Gov't.
1983																
JUN	12.96%	13.38%	13.38%	12.36%	12.67%		14.00%									
JUL	14.23	14.00	14.01	12.50	12.63		14.50									
AUG	13.78	13.90	13.92	12.38	12.72		14.38									
SEP	13.55	13.60	13.62	12.54	12.85		14.24									
OCT	13.23	13.52	13.53	12.25	12.65		14.11									
NOV	13.23	13.48	13.49	12.34	12.58		14.15									
DEC	13.25	13.42	13.42	12.42	12.39		13.95									
1984																
JAN	13.08	13.28	13.27	12.29	12.16		13.74									
FEB	13.20	13.31	13.32	12.23	12.19		13.98									
MAR	13.68	13.57	13.58	12.02	12.17		14.29									
APR	13.80	13.77	13.79	12.04	12.07		14.58									
MAY	15.01	14.38	14.40	12.18	12.10		15.32									
JUN	14.91	14.65	14.67	12.10	12.26		15.70									
JUL	14.58	14.53	14.54	12.50	12.53		15.53									
AUG	14.21	14.24	14.25	12.43	12.75		15.24									
SEP	n.a.	n.a.	n.a.	12.53	12.91		15.07									

Year and Month	FNMA: Mandatory Delivery Yields: ARM (5 yr. Treas.)	FNMA: Mandatory Delivery Yields: Conv.	CONSTRUCTION LOANS[4] ALL TYPES
1983			
JUN	12.480%	13.163%	
JUL	12.978	13.638	
AUG	13.195	13.688	12.99
SEP	12.863	13.213	
OCT	12.575	12.963	
NOV	12.787	13.012	12.94
DEC	12.870	13.050	
1984			
JAN	12.788	12.800	
FEB	12.863	12.938	13.34
MAR	13.325	13.375	
APR	13.625	13.638	
MAY	14.200	14.400	13.76
JUN	14.810	14.770	
JUL	14.810	14.450	
AUG	14.050	13.910	14.56
SEP	13.913	13.738	

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION													
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[4]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[4]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[4]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[4]	Life Cos.
1983																				
JAN	$15,616	$4,710	$ 4,755	$ 5,371	$ 780	$10,695	$3,880	$ 3,621	$3,146	$ 54	$1,532	$650	$ 529	$312	$ 45	$3,389	$180	$ 605	$1,913	$ 757
FEB	16,396	4,450	5,090	5,987	869	11,562	3,980	3,946	3,593	44	1,084	170	383	453	83	3,750	300	761	1,941	805
MAR	21,468	5,910	7,577	6,965	1,016	15,824	5,050	5,877	4,839	54	1,113	70	677	285	82	4,531	790	1,023	1,841	902
APR	20,459	6,080	7,942	5,681	756	14,661	4,790	6,292	3,523	56	1,884	890	656	288	50	3,910	400	990	1,870	650
MAY	22,111	5,590	8,348	7,354	819	15,670	4,740	6,903	3,970	57	1,397	300	549	490	58	5,044	550	896	2,894	704
JUN	29,936	7,120	10,936	10,354	1,526	20,993	5,950	8,683	6,268	92	2,621	910	916	645	150	6,322	260	1,337	3,441	1,284
JUL	24,310	5,810	10,275	7,230	995	18,650	5,450	8,297	4,839	64	1,191	30	759	331	71	4,469	330	1,219	2,060	860
AUG	28,942	5,730	11,291	10,042	1,879	20,755	5,000	9,197	6,501	57	1,725	220	740	523	242	6,462	510	1,354	3,018	1,580
SEP	24,331	4,470	10,331	8,115	1,415	16,815	3,660	8,127	4,979	49	1,569	220	774	439	136	5,947	590	1,430	2,697	1,230
OCT	21,235	4,300	8,586	7,121	1,228	14,927	3,630	6,823	4,427	47	1,501	170	759	410	162	4,807	500	1,004	2,284	1,019
NOV	20,938	5,340	8,202	6,039	1,357	14,606	4,690	6,317	3,549	50	1,801	100	783	699	219	4,531	550	1,102	1,791	1,088
DEC	26,024	4,970	10,553	6,793	3,138	15,858	4,860	7,441	3,455	102	2,254	110	996	849	299	7,912	570	2,116	2,489	2,737
1984																				
JAN	20,001	4,870	7,818	6,558	755	13,544	4,190	5,839	3,467	48	1,836	320	938	531	47	4,621	360	1,041	2,560	660
FEB	19,099	4,310	7,721	6,101	967	12,328	3,350	5,724	3,212	42	1,796	570	739	339	148	4,975	390	1,258	2,550	777
MAR	22,857	4,690	10,158	6,914	1,095	14,949	3,770	7,414	3,680	85	2,070	370	1,052	555	93	5,838	550	1,692	2,679	917
APR	24,913	5,870	11,261	6,271	1,511	17,350	4,940	8,507	3,831	72	1,960	410	1,100	264	186	5,603	520	1,654	2,176	1,253
MAY	27,303	5,230	13,393	7,439	1,241	19,457	4,480	10,454	4,419	104	1,929	140	1,255	439	95	5,837	610	1,684	2,581	1,042
JUN	29,599	5,490	14,485	7,629	1,995	20,565	4,680	11,054	4,779	52	1,946	20	1,343	441	142	7,088	790	2,088	2,409	1,801
JUL	24,970	3,760	12,979	7,061	1,170	17,929	3,330	10,213	4,314	72	1,575	0	963	536	76	5,466	430	1,803	2,211	1,022
AUGp	n.a.	3,450	n.a.	n.a.	n.a.	n.a.	2,990	n.a.	n.a.	n.a.	n.a.	0	n.a.	n.a.	n.a.	n.a.	460	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[6]	Life Cos.
1983										
FEB	$ 69,199	$18,840	$25,677	$14,965	$ 9,717	$16,887	$6,460	$ 7,271	$2,086	$1,070
MAR	72,413	18,500	28,864	15,217	9,850	22,322	7,660	10,291	3,073	1,298
APR	76,041	19,550	31,850	14,311	10,330	22,049	7,460	9,730	3,265	1,594
MAY	78,413	17,740	33,906	16,242	10,531	23,141	7,470	10,622	3,744	1,305
JUN	81,936	19,560	35,319	15,910	11,147	26,002	7,330	12,555	4,011	2,106
JUL	78,741	17,090	36,852	12,651	12,148	26,571	6,840	14,092	3,475	2,164
AUG	79,490	14,990	38,590	13,770	12,140	24,126	6,160	12,668	3,653	1,645
SEP	77,774	13,750	38,562	13,495	11,967	20,364	4,620	10,895	3,454	1,395
OCT	89,570	25,840	38,417	13,721	11,592	19,614	6,130	9,484	2,940	1,060
NOV	85,851	15,990	39,969	17,943	11,949	22,804	7,610	10,182	3,447	1,565
DEC	90,532	22,650	40,410	17,075	10,397	20,760	6,310	10,016	3,119	1,315
1984										
JAN	80,916	15,170	40,781	14,253	10,712	18,183	4,660	9,173	3,010	1,340
FEB	86,522	15,890	42,792	16,441	11,399	19,446	3,980	10,477	3,376	1,613
MAR	88,200	13,410	45,801	16,257	12,732	25,239	5,290	12,954	4,432	2,563
APR	100,399	16,870	51,965	17,702	13,862	26,033	4,700	14,433	4,555	2,345
MAY	103,392	15,950	54,478	18,579	14,385	27,888	4,950	15,997	5,096	1,845
JUN	99,830	12,280	54,698	19,122	13,730	24,649	3,810	14,559	4,736	1,544
JUL	98,039	11,480	54,102	19,227	13,230	22,723	4,060	13,424	4,108	1,131
AUG	n.a.	8,570p	n.a.	n.a.	n.a.	n.a.	3030p	n.a.	n.a.	n.a
SEP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in Thousands, Dollars in Millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
	Total	FHA/VA	Private	Total Units	Total Amt.	FHA (203) Units	FHA (203) Amt.	VA Units	VA Amt.	Private Units	Private Amt.
1983											
FEB	138	96	42	62	$3,607	17	$ 795	15	$ 961	30	$1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,190	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831
SEP	152	66	86	161	9,702	56	2,922	33	2,092	72	4,688
OCT	141	58	83	125	7,752	26	1,362	30	1,934	69	4,456
NOV	131	51	80	131	7,980	34	1,772	25	1,598	72	4,610
DEC	136	46	90	118	7,594	20	1,046	22	1,448	76	5,092
1984											
JAN	121	45	76	109	7,017	14	753	24	1,544	71	4,720
FEB	123	44	79	101	6,467	20	1,093	22	1,449	59	3,925
MAR	159	49	110	124	7,715	35	1,807	19	1,202	70	4,706
APR	167	48	119	110	7,103	16	882	17	1,114	77	5,107
MAY	174	45	129	126	8,051	17	924	17	1,081	92	5,965
JUN	159	35	124	138	9,064	20	1,076	16	1,060	102	6,928
JUL	148	32	116	135	8,872	16	834	18	1,131	101	6,907
AUG	136	30	106	129	8,435	17	904	16	998	96	6,533
SEP	116	28	88	100	6,543	14	733	12	775	74	5,035

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities						Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued	Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Applications	Issued
1983										
JAN	$2,006	$2,045	$15,464	$1,082	$2,004	$2,059	$1,479	$1,641	$4,593	$2,657
FEB	784	1,594	16,586	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	18,157	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	19,138	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	20,064	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	20,933	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	22,313	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	23,078	1,052	5,592	6,367	1,621	1,585	7,976	5,943
SEP	2,739	1,203	23,819	1,018	3,183	3,283	2,263	1,555	6,749	4,200
OCT	1,882	1,244	24,311	750	2,382	2,598	2,886	2,758	3,891	3,808
NOV	997	1,348	24,475	381	1,596	2,093	1,287	1,139	4,201	3,857
DEC	1,471	2,204	25,121	841	1,261	1,704	1,685	1,121	4,046	2,543
1984										
JAN	1,772	1,285	25,182	251	1,293	1,470	1,419	978	2,500	2,718
FEB	1,930	1,507	26,125	1,126	1,127	1,385	1,389	1,338	4,422	3,030
MAR	1,626	2,030	28,354	2,405	1,704	1,873	1,290	868	3,083	2,488
APR	1,561	1,775	28,661	502	1,577	1,701	983	723	2,261	1,981
MAY	1,233	1,379	28,962	552	1,826	1,966	987	832	3,596	2,779
JUN	1,995	1,209	29,256	580	3,038	2,712	2,204	1,845	3,142	2,268
JUL	1,976	1,226	30,485	1,533	3,835	3,929	1,288	1,579	3,252	2,325
AUG	1,227	820	32,054	1,862	3,003	3,130	1,821	1,579	2,385	2,373
SEP	1,142	1,145	32,888	1,092	3,350	3,440	1,262	1,139	2,885	1,921

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1983									
JAN	$100	$ 50	$20	$ 30	$280	$120	$ 60	$ 30	$130
FEB	150	60	30	60	280	110	60	60	110
MAR	170	80	20	70	540	180	50	190	170
APR	130	50	10	70	290	150	60	610	80
MAY	320	160	40	120	470	130	160	80	260
JUN	430	170	60	200	500	130	120	90	280
JUL	120	60	10	50	180	80	40	30	70
AUG	110	70	10	30	200	120	80	20	60
SEP	160	70	20	60	440	100	50	60	280
OCT	130	60	20	50	350	90	90	140	120
NOV	140	70	10	60	390	150	90	120	120
DEC	570	180	50	340	560	130	250	190	240
1984									
JAN	180	70	20	90	460	130	140	100	230
FEB	150	70	10	70	280	80	90	90	110
MAR	190	80	30	80	350	120	220	80	150
APR	200	90	30	80	620	140	100	360	120
MAY	180	80	10	10	420	190	160	130	100
JUN	380	120	10	250	760	120	360	180	460
JUL	280	70	10	200	790	130	180	210	450
AUG	100p	50p	10p	40p	410p	110p	80p	120p	170p
SEP	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1]From the National Association of Realtors' "Existing Home Sales" series.

[2]Secondary market gross yields.

[3]Federal Home Loan Mortgage Corp. Existing construction only.

[4]Federal Reserve's weighted average interest rate for Commercial Banks.

[5]Securities for 30 day delivery.

[6]Mutual Savings Banks and Commercial Banks.

[7]As of January 1984 this rate is for A-rated recently offered utility bonds.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Telerate Financial Information Network, Veterans Administration.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

Year and Month	SEASONALLY ADJUSTED				NOT SEASONALLY ADJUSTED							
						1-4 Units				5+ Units		
	Total[2]	1-4 Units	5+ Units	Non-Res.[3]	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-Res.[3]
1982													
SEP	$2,360	$2,070	$ 70	$ 170	$ 2,280	$ 2,090	$ 700	$ 490	$ 900	$ 50	$ 10	$ 40	$ 140
OCT	2,670	2,100	220	250	2,850	2,290	840	550	900	320	90	230	240
NOV	3,800	3,290	250	280	3,240	2,770	1,190	690	890	200	140	60	270
DEC	4,340	4,000	120	240	4,720	4,210	1,620	1,020	1,570	150	0	150	360
1983													
JAN	5,300	4,640	340	240	4,710	3,880	1,720	940	1,220	650	30	620	180
FEB	5,590	5,350	220	360	4,450	3,980	1,640	970	1,370	170	0	170	300
MAR	5,910	5,170	90	620	5,910	5,050	2,180	1,350	1,520	70	40	30	790
APR	6,270	5,030	1,080	380	6,080	4,790	1,890	1,130	1,770	890	0	890	400
MAY	5,500	4,790	290	440	5,590	4,740	2,030	1,150	1,560	300	10	290	550
JUN	6,110	4,970	680	320	7,120	5,950	2,150	1,310	2,490	910	600	310	260
JUL	5,400	4,740	60	370	5,810	5,450	2,110	1,280	2,060	30	10	20	330
AUG	5,110	4,260	380	590	5,730	5,000	1,760	1,170	2,070	220	30	190	510
SEP	4,750	3,710	370	710	4,470	3,660	1,260	830	1,570	220	60	160	590
OCT	4,190	3,410	110	630	4,300	3,630	1,130	750	1,750	170	0	170	500
NOV	6,160	5,480	130	540	5,340	4,690	1,330	840	2,520	100	30	70	550
DEC	5,150	4,590	90	410	5,540	4,860	1,420	850	2,590	110	0	110	570
1984													
JAN	5,520	5,140	170	460	4,870	4,190	1,140	750	2,300	320	10	310	360
FEB	5,210	4,340	660	460	4,310	3,350	1,030	770	1,550	570	30	540	390
MAR	4,680	3,810	520	440	4,690	3,770	810	560	2,400	370	10	360	550
APR	6,140	5,330	490	490	5,870	4,940	1,070	740	3,130	410	0	410	520
MAY	5,060	4,410	130	460	5,240	4,480	960	690	2,830	140	0	140	610
JUN	4,650	3,860	20	1,020	5,490	4,680	1,050	700	2,930	20	0	20	790
JUL	3,530	2,960	0	460	3,760	3,330	800	530	2,000	0	0	0	430
AUGp	3,010	2,530	0	470	3,450	2,990	510	360	2,120	0	0	0	460
Year to Date[5]													
1984					$37,680	$31,730	$ 7,370	$5,100	$19,260	$1,830	$ 50	$1,780	$4,110
1983					45,400	38,840	15,480	9,300	14,060	3,240	720	2,520	3,320
1982					16,160	13,080	4,160	2,410	6,510	860	400	460	2,220
1981					24,070	18,550	6,370	4,750	7,430	1,290	720	570	4,240

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

Year and Month	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982														
SEP	$ 4,240	$ 3,970	$ 60	$ 210	$ 4,870	$ 4,360	$ 130	$ 380	$ 8,030	$ 1,100	$ 670	$ 7,960	$ 1,750	$ 840
OCT	6,740	5,080	1,010	650	4,090	2,560	1,020	510	10,850	950	770	7,830	1,590	950
NOV	7,290	5,740	490	1,060	6,010	3,990	950	1,070	13,260	1,490	910	10,010	2,250	1,160
DEC	6,110	5,230	170	710	5,330	4,170	180	980	14,680	800	840	9,400	1,180	1,040
1983														
JAN	7,010	5,550	880	580	5,140	4,250	80	810	14,370	1,240	910	8,920	1,380	1,140
FEB	6,460	5,850	290	320	6,160	4,690	630	840	15,840	1,960	1,040	8,260	2,260	1,420
MAR	7,660	6,060	1,390	210	9,130	6,560	1,830	740	15,450	2,190	860	9,750	2,480	1,160
APR	7,460	6,080	460	920	8,300	6,880	260	1,160	16,140	2,240	1,170	11,480	2,440	1,430
MAY	7,470	7,030	0	440	6,080	5,310	190	580	16,350	540	850	9,970	1,590	1,110
JUN	7,330	7,210	0	120	7,760	7,030	310	420	18,300	530	730	12,230	1,590	1,010
JUL	6,840	6,170	0	670	7,060	6,280	160	620	15,890	520	680	11,760	680	870
AUG	6,160	5,450	0	710	6,950	5,920	20	1,010	13,640	460	890	10,820	570	1,050
SEP	4,620	4,510	0	110	5,880	4,350	870	660	12,560	410	780	8,610	1,260	790
OCT	6,130	4,900	240	990	6,280	5,810	200	270	12,870	12,030	940	9,910	13,830	940
NOV	7,610	4,870	800	1,940	5,910	4,010	940	960	13,420	1,440	1,130	10,340	2,390	1,030
DEC	6,320	4,060	250	2,010	4,800	3,150	280	1,370	11,600	10,120	930	7,660	11,950	1,060
1984														
JAN	4,660	4,080	10	670	3,690	2,930	170	590	11,420	2,990	760	8,140	4,670	810
FEB	3,980	3,340	0	640	7,230	4,620	1,830	780	11,830	3,200	860	9,560	5,370	810
MAR	5,290	4,080	0	1,210	4,590	3,530	90	970	12,680	0	730	8,950	1,710	730
APR	4,700	4,300	0	400	5,140	4,540	80	520	13,920	1,970	980	11,200	2,160	980
MAY	4,950	4,070	0	880	4,620	3,530	530	560	13,240	1,510	1,200	9,630	3,310	1,120
JUN	3,810	3,250	40	520	5,970	4,550	70	1,350	11,550	170	560	9,420	350	1,770
JUL	4,060	2,940	0	1,120	4,050	3,580	20	450	10,840	70	570	9,870	250	1,570
AUGp	3,030	2,770	0	260	4,090	3,320	10	760	8,070	40	460	7,660	210	1,470
Year to Date														
1984	$34,480	$28,770	$ 50	$5,700	$39,380	$30,600	$2,800	$5,980						
1983	56,390	49,400	3,020	3,970	56,580	46,920	3,480	6,180						
1982	23,420	16,740	1,600	5,080	26,440	19,300	1,680	5,460						
1981	27,470	23,100	590	3,780	33,090	23,520	1,070	8,500						

Notes: [1]All dollar amounts are in millions.
[2]Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.
[3]Series labeled non-residential are also inclusive of farm data.
[4]Percent coverage equals outstanding commitments recieved from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.
[5]Year-to-date seasonally adjusted series not calculated.

OUTSTANDING END OF MONTH INVENTORY[1]

Year and Month	Total	1-4 Units				5+ Units			Non-Res.[3]	COVERAGE[4]			SERVICING VOLUME[1]		
		Total	FHA	VA	Conv.	Total	FHA	Conv.		1-4 Units	5+ Units	Non-Res.[3]	1-4 Units	5+ Units	Non-Res.[3]
1982															
SEP	$ 8,360	$4,080	$1,010	$ 660	2,410	$3,240	$190	$3,050	$1,040	66%	40%	49%	$236,860	$28,660	$40,870
OCT	8,390	4,390	1,050	880	2,460	2,750	180	2,570	1,250	51	43	47	240,780	28,380	41,310
NOV	9,140	5,070	1,440	1,050	2,580	2,890	400	2,490	1,180	55	51	56	240,710	29,620	42,560
DEC	8,690	6,000	1,890	1,290	2,820	1,590	220	1,370	1,100	45	49	54	251,510	32,820	44,080
1983															
JAN	11,220	6,450	2,180	1,440	2,830	3,600	470	3,130	1,170	43	29	55	245,140	42,090	41,960
FEB	12,000	7,030	2,220	1,500	3,310	3,570	470	3,100	1,400	36	41	58	248,980	41,980	42,230
MAR	11,960	7,250	2,410	1,640	3,200	3,490	480	3,010	1,220	43	44	56	248,630	41,300	44,850
APR	12,080	7,170	2,340	1,700	3,130	2,760	10	2,750	1,000	49	49	66	262,050	43,670	43,790
MAY	11,200	6,930	2,510	1,700	2,720	3,470	10	3,460	800	43	40	64	267,170	44,300	41,940
JUN	12,920	8,260	2,780	1,850	3,630	3,480	10	3,470	850	46	40	64	294,020	51,230	45,180
JUL	11,960	7,760	2,490	1,710	3,560	3,410	0	3,410	790	50	17	60	305,860	43,090	42,620
AUG	11,480	7,190	2,170	1,600	3,420	3,400	0	3,400	890	52	15	59	289,220	41,800	39,150
SEP	10,870	6,530	1,870	1,460	3,200	3,440	10	3,430	900	45	33	47	264,720	44,760	33,870
OCT	11,060	6,590	1,780	1,460	3,350	3,550	210	3,340	920	51	89	51	274,860	44,100	38,970
NOV	11,450	6,990	1,800	1,380	3,810	3,240	0	3,240	1,220	51	51	44	292,100	48,620	40,400
DEC	10,860	6,050	1,570	1,250	3,230	3,500	550	2,950	1,310	43	88	48	259,530	46,690	39,600
1984															
JAN	14,720	6,420	1,390	1,150	3,880	7,400	10	7,390	900	46	45	49	283,720	51,610	36,130
FEB	14,320	5,920	1,380	1,140	3,400	7,450	10	7,440	950	54	50	45	275,010	48,960	41,550
MAR	14,860	6,320	1,350	1,170	3,800	7,510	0	7,510	1,030	47	23	41	281,010	56,610	44,380
APR	16,250	7,500	1,540	1,320	4,640	7,720	0	7,720	1,030	52	22	49	323,690	48,730	42,310
MAY	15,500	6,910	1,390	1,030	4,490	7,390	0	7,390	1,200	48	37	47	332,570	59,010	46,280
JUN	10,270	8,320	1,840	1,450	5,030	780	0	780	1,170	47	37	102	313,650	56,750	38,670
JUL	8,870	6,990	1,480	1,090	4,420	730	0	730	1,150	55	31	91	317,600	63,980	39,840
AUGp	7,140	5,320	980	650	3,690	710	0	720	1,100	57	28	94	282,000	39,930	38,740

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

Year and Month	DISBURSEMENTS DURING MONTH					CONSTRUCTION LOANS CLOSED				END OF MONTH INVENTORY				
	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]	Land Loans
1982														
SEP	$110	$ 40	$20	$ 50	$ 40	$320	$ 80	$130	$110	$2,740	$ 690	$ 670	$1,380	$ 630
OCT	130	70	20	40	30	230	100	110	20	3,460	830	920	1,710	600
NOV	130	80	10	40	30	430	130	220	80	3,150	790	740	1,570	610
DEC	170	70	30	70	60	490	120	110	260	3,190	840	700	1,610	620
1983														
JAN	100	50	20	30	60	280	120	30	130	2,810	750	650	1,410	580
FEB	150	60	30	60	60	280	110	60	110	3,160	890	620	1,650	630
MAR	170	80	20	70	50	540	180	190	170	3,090	930	580	1,580	610
APR	130	50	10	70	60	290	150	610	80	2,030	610	330	1,090	680
MAY	320	160	40	120	160	470	130	80	260	7,290	2,080	1,140	4,070	1,600
JUN	430	170	60	200	120	500	130	90	280	7,400	2,120	1,080	4,200	1,580
JUL	120	60	10	50	40	180	80	30	70	2,580	810	380	1,390	660
AUG	110	70	10	30	80	200	120	20	60	2,410	760	340	1,310	650
SEP	160	70	20	70	50	440	100	60	280	3,120	950	430	1,740	650
OCT	130	60	20	50	90	350	90	140	120	3,220	990	430	1,800	750
NOV	140	70	10	60	90	390	150	120	120	3,160	1,010	350	1,800	750
DEC	570	180	50	340	250	560	130	190	240	8,490	2,710	940	4,840	1,550
1984														
JAN	180	70	20	90	140	460	130	100	230	3,490	1,050	430	2,010	650
FEB	150	70	10	70	90	280	80	90	110	3,280	880	370	2,030	630
MAR	190	80	30	80	220	350	120	80	150	3,360	990	380	1,990	840
APR	200	90	30	80	100	620	140	360	120	3,220	1,040	460	1,720	860
MAY	180	80	10	90	160	420	190	130	100	3,220	1,060	380	1,780	930
JUN	380	120	10	250	360	760	120	180	460	4,710	1,610	540	2,560	1,250
JUL	280	70	10	200	180	790	130	210	450	2,760	900	240	1,620	1,120
AUGp	100	50	10	40	80	410	110	130	170	2,150	740	190	1,220	800

COMMITMENTS TO BORROWERS: LAND AND CONSTRUCTION LOANS[1]

Year and Month	Issued During Month				End of Month Balances			
	Total	1-4 Units	5+ Units	Non-Res.[3]	Total	1-4 Units	5+ Units	Non-Res.[3]
1982								
SEP	$ 660	$ 90	$ 430	$ 140	$ 6,180	$ 980	$ 2,730	$2,470
OCT	2,370	110	2,000	260	7,180	660	3,630	2,890
NOV	1,370	190	880	300	7,810	860	4,040	2,910
DEC	1,050	160	500	390	5,800	850	2,220	2,730
1983								
JAN	1,730	100	1,420	210	7,170	660	3,990	2,520
FEB	1,020	130	420	470	8,830	810	4,570	3,450
MAR	2,840	240	2,260	340	9,400	1,010	5,810	2,580
APR	1,350	140	500	710	8,400	980	4,900	2,520
MAY	1,070	120	610	290	6,280	650	3,900	1,730
JUN	1,410	160	550	700	6,780	970	3,710	2,100
JUL	1,970	120	1,780	70	7,160	910	4,660	1,590
AUG	900	180	100	620	5,620	940	2,480	2,200
SEP	1,100	100	690	310	5,210	870	2,190	2,150
OCT	1,650	130	990	530	22,340	1,080	18,890	2,370
NOV	1,770	120	900	750	8,520	1,270	3,960	3,290
DEC	,460	110	2,310	1,040	19,710	1,030	15,450	3,230
1984								
JAN	1,080	80	400	600	10,900	800	7,440	2,660
FEB	1,300	90	530	680	9,500	750	5,650	3,100
MAR	2,840	150	2,240	450	5,710	610	2,070	3,030
APR	3,940	120	3,260	560	10,080	960	5,780	3,340
MAY	3,530	170	2,770	590	11,480	1,030	6,750	3,700
JUN	1,170	150	60	960	5,140	1,040	1,010	3,090
JUL	1,730	130	60	1,540	,090	870	470	2,750
AUGp	750	200	80	460	3,540	900	460	2,180

NOTES PAYABLE[1]

End of Month Balances			
Total	Comm. Paper	To Parent	To Others
$12,190	$2,080	$ 6,130	$ 3,980
18,330	1,460	7,870	9,000
12,720	1,910	5,850	4,960
14,660	2,740	6,950	4,970
19,270	3,320	10,270	5,680
20,070	3,530	8,370	8,170
20,640	3,960	9,510	7,170
20,120	3,330	10,200	6,590
25,640	3,780	10,460	11,400
36,620	4,490	10,570	21,560
36,150	4,410	14,100	17,640
35,370	8,920	10,920	15,530
41,300	3,110	9,820	28,370
30,150	2,760	8,870	18,520
32,200	3,690	10,520	17,990
29,590	2,770	7,140	19,680
31,180	3,900	9,810	17,470
23,480	3,710	8,530	11,240
42,850	5,060	9,130	28,660
27,280	3,190	15,280	8,810
35,190	4,690	21,880	8,620
31,530	4,910	12,610	14,010
41,960	6,190	12,710	23,060
47,770	5,450	13,010	29,310